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FOOD PROCUREMENT IN DEVELOPING COUNTRIES



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NOTE TO THE EXECUTIVE BOARD

This document is submitted for consideration to the Executive Board.

The Secretariat invites members of the Board who may have questions of a technical nature with regard to this document to contact the WFP staff focal points indicated below, preferably well in advance of the Board's meeting.

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TABLE OF CONTENTS

	Pages
EXECUTIVE SUMMARY	4
DRAFT DECISION	5
	Paragraphs
I. OVERVIEW	1-6
WFP General Rules and Regulations	1-2
Background	3-4
Scope and definitions	5-6
II. PROCUREMENT TRENDS	7-13
III. A REVIEW OF THE LITERATURE	14-21
IV. WFP'S FOOD PROCUREMENT ACTIVITIES	22-39
Local procurement planning	23
Scope and structure of WFP procurement	24-25
Food procurement procedures	26-31
Import parity	32-34
Market intelligence	35-37
Staffing of procurement offices at the country and regional levels	38-39
V. FOOD PROCUREMENT EFFICIENCY	40-53
Timeliness of cash contributions	40-41
Donor restrictions	42-44
Recipient country restrictions	45
Reliable and competitive suppliers	46-48
Administrative costs	49
Timely interventions in the market	50-52
Futures markets	53
VI. IMPACT ON DEVELOPING COUNTRIES	54-83
Grain market development	58-63
Investments in local food industries	64-68
Assistance to small traders and farmers' groups	69-72
Direct contracting with farmers and farmers' groups	73-75
Purchasing premiums	76-78
Stimulating regional trade	79-80
Supporting a warehouse receipts system	81-82
Risk of overdependence on WFP	83
VII. KEY ISSUES AND RECOMMENDATIONS	84-87
	Pages
ANNEX	29
ACRONYMS	30



EXECUTIVE SUMMARY

WFP's current policy is to procure food in a manner that is cost-efficient, timely and appropriate to beneficiary needs, encouraging procurement from developing countries to the extent possible. When procuring from developing country food markets, WFP's procurement procedures aim to avoid causing negative effects on those markets, including price rises that would harm the food security of the poor. This paper reviews WFP's food procurement in developing countries, considers the positive and negative impacts WFP can have on markets and sets out ways to strengthen WFP's positive impact on developing country markets and industries.

Currently, food procured in developing countries accounts for approximately 20 percent of global food aid. WFP has historically been the largest single procurer of food aid on a global scale. From 2001 to 2004, WFP bought an average of 1.25 million mt of food per annum (US\$263 million) in developing countries. WFP's local purchases have also risen significantly, although they still account for only a third of its total food procurement and usually less than half of its procurement from developing countries.

In the past, local and triangular procurement have not been widely researched. The findings of previous studies conducted have addressed only limited aspects of their impact on local economies. Given the limited evidence base, WFP commissioned six case studies on its local and regional procurement activities in Bolivia, Burkina Faso, Ethiopia, Nepal, South Africa and Uganda.

As the vast majority of WFP operations are in response to emergencies, fluctuations in needs and cash funding can lead to substantial differences in annual procurement levels. WFP's procurement procedures are based on its extensive experience and are designed to obtain food in a cost-efficient and timely manner. The fact that WFP is not a reliable buyer in many markets is a serious limitation on its ability to contribute to market development.

All reviews of food procurement agree that when the cash is in hand and can be used flexibly and without restriction, local and regional purchases are more cost-efficient and timelier than other sources of food aid. When procuring in markets that are not well developed, however, the administrative costs and risks increase. As an uncertain and often unpredictable buyer, WFP has a responsibility to intervene in markets without creating false expectations.

Studies show that under its normal procurement procedures WFP has had important impacts on market development in many countries, promoting competitive behaviour, raising business standards and improving the quality of food supplied by traders. In a few countries, WFP has also supported development of the local food processing sector. WFP has not had success in promoting market development through procuring directly from farmers and farmers' groups.

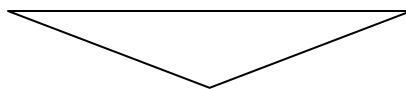
WFP aims to achieve a balance between its procurement objective of timely, cost-efficient and appropriate food and its programmatic objective of promoting developing country food markets and the food security of food aid recipient countries. The following summarizes the conclusions that can be drawn from the current analysis:



- *Market development as an implicit objective.* WFP seeks to strengthen developing country markets, wherever this can be done consistently with purchasing efficiency and the optimal use of scarce cash resources. WFP's primary objective is to address the food needs of its beneficiaries.
- *Flexible and timely cash contributions.* The provision of untied donor resources would allow WFP to procure at the local, regional or international level, promoting market competitiveness and ensuring that cash is used to provide food in the most timely and efficient manner.
- *Encouraging small traders and farmers' groups.* When food needs are not urgent, WFP can do more to encourage small traders and farmers' groups that can trade competitively in the formal sector. However, increasing such support would require more field-level procurement officers.
- *Preferential treatment for farmers and farmers' groups.* WFP is not well-placed to use procurement to support farmers and farmers' groups entering the market place. There may be limited opportunities for support as part of a broader partner-led strategy.
- *Developing food processing capacity.* WFP should continue to support the creation of processing capacity to produce fortified blended foods and high-energy biscuits in countries where local processors have the potential to become market competitive.
- *Procurement office capacities at the country and regional levels.* To promote local and regional purchases further, particularly in countries where markets are not well developed, WFP should consider expanding its specialist food procurement staff capacity in view of the potential supply capacity of the market, the cost-savings that local and regional procurement can bring, and its overall needs.



DRAFT DECISION*



In considering the paper "Food Procurement in Developing Countries", the Board notes the issues involved in local and regional purchases of food products especially where markets are not well developed, and recognizes the positive and negative impacts WFP's procurement may have on these markets. The Board therefore requests that WFP continue to advance in its study of the developmental impact of food procurement, linking this analysis to the broader analysis of WFP's interventions in a country.

In addition the Board

reaffirms that WFP should continue to undertake food procurement in a manner that is cost-efficient, timely and appropriate to beneficiary needs;

urges donors to provide more unrestricted and predictable funding so that WFP can more effectively plan and undertake local and regional food procurement; and,

requests WFP to give due consideration to optimizing the potential developmental benefits of procurement by:

- working closely with national governments, FAO, IFAD and others to assess the capacity of local and regional markets to participate in WFP procurement and to support partner efforts to develop this capacity further;
- providing the Board, in the framework of its discussions of WFP's operations and country situations, with more information about the situation of local markets and, more generally, the trends and issues involved in local and regional purchases of food products, thus maintaining the transparency required by Member States; and
- ensuring that WFP country offices and/or regional bureaux, where appropriate to the overall needs of WFP, have the necessary staff to enable them to procure food on the basis of adequate knowledge and analysis of local and regional markets.

The Board requests that the Secretariat provide an update on its procurement activities at the Annual Session in 2006, and regularly thereafter.

* This is a draft decision. For the final decision adopted by the Board, please refer to the Decisions and Recommendations document issued at the end of the session.



I. OVERVIEW

WFP General Rules and Regulations

1. WFP's food procurement activities are governed by the provisions of General Rule XII of WFP's General Rules and Regulations.

General Rule XII.4: Responsibility for optimum use of resources.

The Executive Director shall be responsible for making the optimum use of available resources in commodities, cash and acceptable services. To this end the Executive Director may use unrestricted cash resources to purchase commodities, to the maximum extent possible from developing countries, and shall report such purchases to the Board.

General Rule XII.6: Safeguarding exporters, international trade, and producers in recipient countries.

In the assessment of prospective economic and social development programmes and projects, and in their implementation and subsequent evaluation, full consideration shall be given to the prospective and actual effects of the programme or project upon local food production, including possible ways and means of increasing such production, and upon the markets for agricultural products produced in the country.

2. On the basis of these rules, WFP's Procurement Policy states: "the main objective of WFP's food procurement is to ensure that appropriate food commodities are available to the beneficiaries in a timely and cost-efficient manner. Consistent with this, WFP purchases must also be fair and transparent."¹ WFP's Financial Rules state: "when conditions are equal, preference will be given to purchasing from developing countries."²

Background

3. During its Annual Session in May 1998, the Executive Board discussed a document on "Local Purchases of Food and Non-Food Items" (WFP/EB.A/98/8-B). That document highlighted the increased importance of local procurement of food aid and non-food items in WFP's activities. The Board requested further information on how WFP's food procurement avoided causing negative consequences on local markets; a follow-up "Review of the Methodology on Local Purchases" (WFP/EB.3/99/10-A) was presented to the Board in October 1999.
4. Recently, the Board has requested further information on WFP's food procurement in developing countries and on the extent to which these activities can have a *positive* impact on development. WFP's current policy is to procure food in a manner that is cost-efficient, timely and appropriate to beneficiary needs, encouraging procurement from developing countries to the extent possible. When procuring from developing country food markets, WFP's procurement procedures aim to avoid causing negative effects on these markets, including price rises that would harm the food security of the poor. This paper reviews

¹ Food Procurement Policy, Executive Director Circular ED96/009, 11 April 1996.

² WFP Financial Rule 112.14(f): For the Purchase of Foodstuffs and Related Packaging, WFP Finance Manual, Appendix A.1.4.13.



WFP's food procurement in developing countries, considers the positive and negative impacts WFP can have on markets and sets out ways to strengthen WFP's positive impact on developing country markets and industries.

Scope and definitions

5. This paper focuses on *food* procurement. Although WFP also procures a wide range of other goods and services, including transport services, these forms of procurement raise issues that are different from those of food procurement. Issues related to non-food procurement are therefore beyond the scope of this paper.
6. The paper deals with four types of food procurement activities:
 - *World market transactions*: the procurement of food from one country for use in a developing country. Such transactions include purchases from both developed and developing countries.
 - *Triangular transactions*: the procurement of food from one developing country for use within another developing country.
 - *Regional purchases*: a sub-set of triangular transactions occurring between developing countries in the same geographic region or subregion.
 - *Local purchases*: the procurement of food from the food aid recipient country for use within that country.

II. PROCUREMENT TRENDS

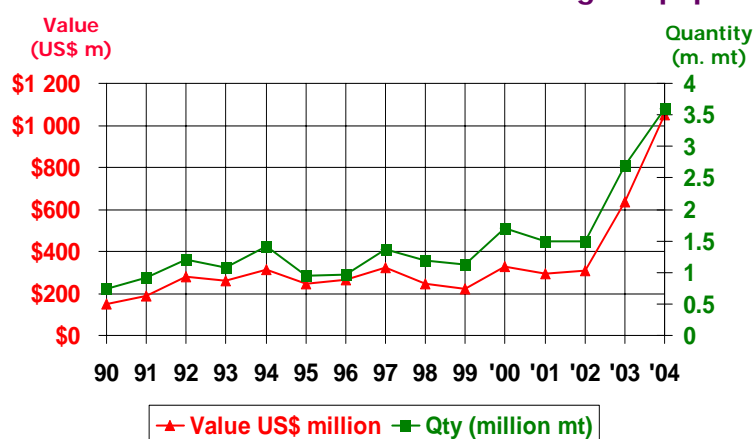
7. Food procurement from developing countries was first promoted at the World Food Conference in 1974, which called for "improved policy for food aid" and urged donor countries to provide cash resources for commodity purchases in developing countries. In 1979, the Committee on Food Aid Policies and Programmes (CFA) adopted Guidelines and Criteria for Food Aid Programmes, which recommended triangular purchases with a view to diversifying food aid to suit beneficiary consumption habits. The Food Aid Convention also encourages the provision of cash resources for local and triangular purchases.
8. Food procurement as a means of supplying food aid remained relatively low until recent years. In the 1980s, less than 10 percent of global food aid was procured outside the donor country, about half of which was procured in developing countries. Currently, food procured in developing countries accounts for approximately 20 percent of global food aid.
9. WFP has historically been the largest single procurer of food aid on a global scale. WFP has consistently procured an average of 50 to 70 percent of its total food procurement from developing countries.³ The majority of what is purchased in developed countries is processed products such as vegetable oil, while cereals and pulses are purchased the most in developing countries.
10. WFP's total food procurement has increased since 2000 and reached particularly high levels in 2003/04 because of increased cash contributions for the Iraq operation. Of 5.4 million mt of food delivered in 2004, 3.6 million mt were purchased – 1.5 million mt of which were for the Iraq operation. The value of WFP food procurement in 2004 was

³ As classified by the Organisation for Economic Co-operation and Development (OECD) Development Assistance Committee (DAC) List of Developing and Transition Countries and Territories.



US\$1.1 billion, of which US\$310 million was for Iraq. The number of countries from which WFP procures also increased, from 78 in 2001 to 91 in 2004. Of the total amount procured, slightly more than one third was purchased through Headquarters and the remaining two thirds through country and regional offices.

**Figure 1: Total WFP food procurement trends
1990–2004: all countries including Iraq operation**



11. In the 1970s, WFP started local and triangular food purchases on a significant scale in Asia. The practice was introduced in Africa in the early 1980s.⁴ WFP's food purchases in developing countries grew from an average of US\$63.4 million in the early 1980s to US\$90.6 million in 1990, reaching a current high of US\$683.7 million in 2004. This high can be attributed to the Iraq operation, for which most procurement was from nearby developing countries.

⁴ "Local Purchases of Food and Non-Food Items". (WFP/EB.A/98/8-B).



Figure 2: WFP food procurement from developing countries: total and excluding Iraq (in 2003/04 only)

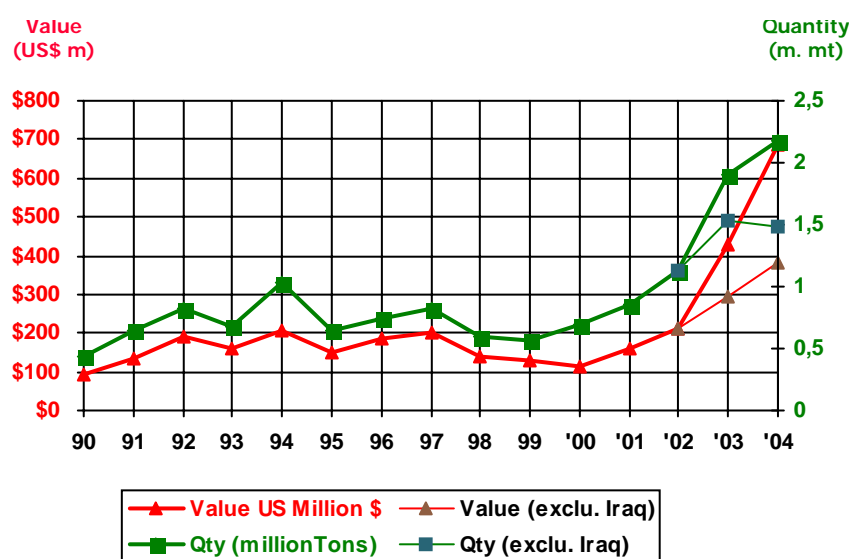


TABLE 1: AGGREGATE FOOD PURCHASES BY DAC CATEGORY, 2001–2004 (INCLUDING PROCUREMENT FOR THE IRAQ OPERATION)

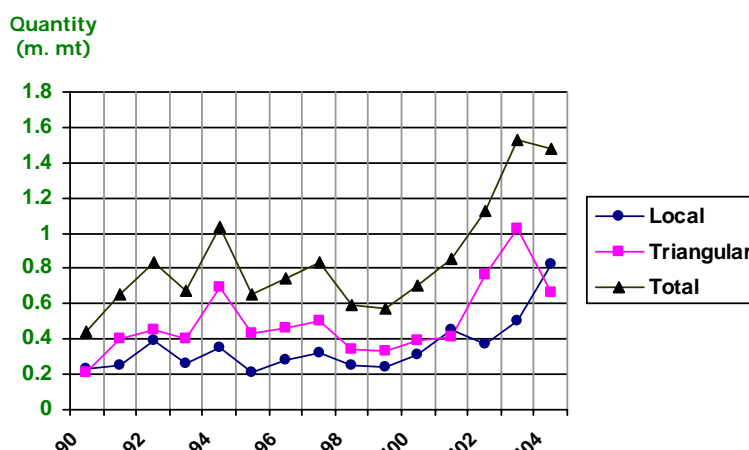
DAC category	Quantity (mt)	% mt	Value (US\$)	% US\$
Low-income	3 195 681	35%	678 515 138	29%
Middle-income	2 990 500	32%	844 767 483	37%
In transition	190 674	2%	35 719 873	2%
Developed	2 841 083	31%	727 517 596	32%
Total	9 217 937	100%	2 286 520 090	100%

12. An aggregate of the amount of food purchased in all categories of countries from 2001 to 2004 shows that the most – 738,015 mt – was procured from South Africa. Among the top 15 countries from which WFP purchased during this period were Ethiopia (number 8), Uganda (number 11), India (number 4), Pakistan (number 6) and Turkey (number 9) – a group of developing countries that ranges from least-developed to the middle-income category. The top 15 also included four developed countries. A full list of the top 15 countries is in the Annex.
13. Even without the Iraq operation, procurement from developing countries has risen significantly since 2000. From 2001 to 2004, WFP bought an average of 1.25 million mt per annum (US\$263 million) in developing countries, averaging 62 percent of its total procurement.⁵ WFP's local purchases also rose significantly, although they still account for only a third of total food procurement and usually less than half of procurement from developing countries.

⁵ Excluding procurement undertaken as part of the Iraq operation.



Figure 3: WFP food procurement from developing countries, excluding Iraq: trends in local and triangular purchases (quantity)



III. A REVIEW OF THE LITERATURE

14. In the past, local and triangular food procurement have not been widely researched. The findings of previous studies conducted have addressed only limited aspects of their impact on local economies.
15. An early study by the Relief and Development Institute in London noted the importance of distinguishing between developing countries that were regular exporters and those whose market structures were less developed when undertaking food procurement. The study confirmed that procurement in less developed markets required careful management and was facilitated by governments investing in market development.⁶ In their analysis of local and triangular food purchases for food aid in developing countries in the 1980s, Clay and Benson found that such operations were largely more cost-effective in terms of commodity and related costs than conventional food aid sourced from developed country stocks.⁷ At the time of their analysis, local and triangular food purchases for food aid at a significant scale had not had a long history, and were used predominantly to procure commodities for emergency operations; such purchases therefore tended to be intermittent and unpredictable. Clay and Benson considered their conclusions provisional, among other reasons to allow more time for the outcomes of agricultural trade liberalization – which was being initiated in sub-Saharan Africa at the time – to be observed. The authors proposed that if commodity acquisition operations in developing countries were to have a continuing important role in food aid activities, the planning and management of such operations had to be improved. Among the specific areas of attention that they recommended were improving trade information and removing non-tariff barriers in beneficiary countries.
16. A study on food security reserve systems, carried out in 2004 by the New Partnership for Africa's Development (NEPAD) and supported by WFP and the Food and Agriculture

⁶ Relief and Development Institute 1987. *A Study of Triangular Transactions and Local Purchases in Food Aid*. WFP Occasional Papers Series, 11. London.

⁷ Edward Clay and Charlotte Benson. 1990. *Aid for food: Acquisition of commodities in developing countries for food aid in the 1980s*. London, Butterworth.



Organization of the United Nations (FAO), provides valuable information on marketing systems in Africa and touches on the contribution that procurement can make to national and regional food security strategies.

17. The United Kingdom's Natural Resources Institute (NRI) has also studied the development effects of local procurement.⁸ Their case study on WFP's local food procurement in Uganda indicated that the practice has significantly contributed to the development of the Ugandan maize subsector, generating employment and income in the farming and trading sectors and benefiting a wide range of other service providers. The study concluded that local procurement had also provided a stimulus to the production and marketing of beans, and had contributed to the emergence of a small blended foods manufacturing sector.⁹
18. Two studies on food aid effectiveness reviewed more general issues related to local and triangular procurement: "The Developmental Effects of Food Aid and the Effects of its Untying Status" by OECD, and an independent evaluation of WFP's Enabling Development Policy (EDP). The independent evaluation concluded that the efficiency of food aid depends on the procurement modalities used, with triangular or local purchasing modalities being the more cost-efficient where cash is available.¹⁰
19. Studies on local procurement all underline that most perceptions of local procurement are based on anecdotes rather than systematic analysis of the impacts of local and regional procurement on local markets and rural development. Given this limited evidence base, WFP commissioned six case studies on its local and regional procurement activities in Bolivia, Burkina Faso, Ethiopia, Nepal, South Africa and Uganda. Study countries were selected on the basis of regional representation and the size and strategic importance of local food purchasing in WFP's country activities. The studies were undertaken by local institutes, including consultancy firms, university institutes and a regional research body.¹¹
20. Another study undertaken by WFP's Nutrition Service and Food Procurement Service explored the local production of fortified blended foods in the Southern Africa region.¹² Considerations regarding processed foods raise issues that are related to but different from those associated with bulk purchases of grain.
21. The following sections draw on the findings of the country case studies, external analyses and WFP's own experience.

⁸ T. Wandschneider and R. Hodges. 2005. *Local food procurement in Uganda: A case study report for EC PREP (DFID)*. London, NRI and University of Greenwich. D. Walker and T. Wandschneider. 2005. *Local food procurement in Ethiopia: A case study report for EC PREP (DFID)*. London, NRI and University of Greenwich. D. Walker and R. Boxall. 2004. *Contributions to rural development by local and regional procurement of food aid, paper on behalf of Euronaid*. London, NRI and University of Greenwich.

⁹ Wandschneider and Hodges, 2005.

¹⁰ German Federal Ministry for Economic Cooperation and Development (BMZ). May 2005. *Joint Evaluation of Effectiveness and Impact of the Enabling Development Policy of WFP*. Bonn.

¹¹ Local and Regional Procurement – An Analytical Review: Bolivia, Centro de Estudios y Proyectos, Bolivia; Burkina Faso, Sahel Institute, Permanent Interstate Committee for Drought Control in the Sahel (CILSS), Mali, Ethiopia, AgriDev Consult; Nepal, NARMA Consultancy; South Africa, N. Vink and T. Mkhabela, University of Stellenbosch, and F. Meyer and J. Kirsten, University of Pretoria; Uganda, Dr D. Sserunkuuma, Serunkuuma & Associates Consult Ltd. The case studies were carried out with funding from the Governments of Sweden and Belgium.

¹² Carried out with funding from the Government of Canada.



IV. WFP'S FOOD PROCUREMENT ACTIVITIES

22. Food procurement is a critical instrument in the range of means whereby WFP brings assistance to those most in need as rapidly and efficiently as possible. In many instances, purchasing locally or regionally has the considerable comparative advantage of providing the food closer to the beneficiaries; this normally reduces the cost of transport and the time needed to get the commodities to the beneficiaries. Locally procured commodities also generally match local taste preferences better. Where local food procurement is possible, it achieves WFP's prime procurement and delivery objectives and also allows a resource transfer to the economies of recipient countries.

Local Procurement Planning

23. As the vast majority of WFP operations are in response to emergencies, annual procurement planning in a country presents a great challenge. Some of the elements that are essential to the planning process are unpredictable, such as exact needs and the level of funding that will be available. As a result, annual procurement plans are based on estimated needs, expected marketed surpluses after harvest and the likely availability of cash resources. Fluctuations in needs and cash funding can lead to substantial divergence from initial plans.

Scope and Structure of WFP Procurement

24. WFP engages in food procurement at three administrative levels: Headquarters, regional office and country office. Each level tends to have access to a different type of market. The Food Procurement Service (ODTP) in WFP Headquarters procures through tenders for varying quantities of commodities for multiple destinations. Such tenders often cover a large geographic scope and capture offers from throughout the world market, including both developed and developing countries. WFP regional offices carry out tenders within a specific region and capture offers from a number of countries, most of which are in the vicinity of the recipient country. WFP country offices purchase within a recipient country mainly for beneficiaries in that country.
25. WFP procures from developing countries at all three administrative levels. Procurement from Headquarters results in contracts with larger, often multinational companies with stocks predominantly in middle-income developing countries. These countries are integrated with the world market and WFP procurement is one trade among many. Local procurement captures mainly national traders located in least-developed and low-income countries. Regional procurement captures a mix.



Food Procurement Procedures

26. When food has to be resourced for a WFP programme or operation, the WFP country office identifies, in its project planning, commodities where local procurement may be feasible. During project implementation, the country office initiates the resource request for food purchasing based on its own projections of commodity requirements. The resource request is addressed to the Operations Department (OD), which checks the availability of fund contributions with the Donor Relations Division (FDD). No purchasing action is initiated before the availability of cash funds has been confirmed. Once funds are available, the country office and the Food Procurement Service in OD agree on the best purchase option – local, regional or international – based on local availability, the situation of the operation’s food pipeline and cost considerations.
27. According to WFP’s food procurement guidelines, country offices are required to:
- collect market intelligence before procurement actions are initiated;
 - share this information with the Procurement Unit at Headquarters, and vice versa, to optimize the effectiveness of WFP’s procurement;
 - coordinate the planning for local procurement with other donors that are procuring food locally; and
 - establish a list of reliable suppliers and follow the restricted tendering procedure, rather than public tendering, except in situations where it is not possible to obtain at least three offers, when purchases may be made on the basis of direct contracting.
28. WFP’s technical and financial requirements in the tendering process include quality, quantity, price, packaging, markings, fumigation, delivery terms, delivery period, performance bonds, quality/weight/packaging control and payments.
29. To provide oversight to the process, WFP has established three types of committee whose duties are distinct from the procuring authorities already referred to:
- Food Purchase Committees evaluate and advise the individuals who are authorized to make decisions, and are accountable for them.
 - Bid Opening Panels ensure the integrity of the formal bidding process.
 - The Committee on Commodities, Transport and Insurance (CCTI) conducts ex-post reviews of food procurement decisions.
30. The Director of the Transport and Procurement Division (ODT) is answerable to CCTI and reports all food procurement over US\$100,000. Independent surveyors are hired to inspect all procured goods to ensure that quality, quantity and packing match the specifications.
31. WFP’s procurement procedures have evolved over time and are based on WFP’s extensive experience in food procurement at the international, regional and local levels. Purchases are made from prequalified suppliers through the competitive bidding process. Supplier selection factors include the legal capacity to enter into a contract, a specialization in the particular commodity, financial standing to honour a contract and previous satisfactory performance.

Import Parity

32. The key benchmark for assessing the feasibility of local procurement is the “import parity” price. For each locally available commodity and destination, import parity is the cost of importing the same commodity from a regional or international market. The



comparison combines the cost of purchasing the commodity from the cheapest alternative source with the associated costs, such as transport to the final destination point. Information for the cost comparison is gathered from the International Food Procurement Unit within the Food Procurement Service and WFP's Ocean Transport and Logistics Services.

33. Apart from small quantities at the onset of an emergency – when timeliness is paramount – WFP avoids purchasing above import parity. This is to ensure that resources are used efficiently to meet the food needs of beneficiaries. In many local markets, the cost of import parity can serve as an indicator of whether in-country commercial marketable stocks are reducing and demand is overtaking supply, for instance, because of impending drought. However, in some local markets the prices of even staple crops are consistently higher than import parity. This indicates a problem with the local market if the private sector is not able to bring in imports to meet food demand. A number of factors may cause this, such as trade remaining largely informal and feeding into only smaller rural markets. Frequent currency fluctuations, particularly devaluations, also play a part in pushing up prices in certain regions. In markets with such problems, WFP purchases above import parity prices only when donors restrict their cash contributions to local purchase.
34. Buying large quantities above import parity could inflate food prices, affecting food access for poor households that rely on the market for their food consumption. In some markets, awareness that WFP would be willing to buy at higher prices may lead large traders to hoard, waiting to benefit from these higher prices. Both these results would be detrimental to the food security of poor households that depend on the market, particularly those in urban areas.

Market Intelligence

35. Where WFP procures from recipient countries, particular attention is paid to analysing local and regional markets. An understanding of agriculture and food security in the country provides the most important base from which a market profile is built. WFP's procurement network includes structural analyses of many key market impact elements, including main crops; agro-ecological zones; levels of production; agricultural seasons; latest food balance sheets; size, location and importance of food markets; principle exports and imports; major barriers to the free flow of food; and inter-regional trading and transport patterns. Market intelligence is also gathered on the expected harvest; the quality of food likely to be available; significant food purchases, including those made by local institutions; commercial exports; estimates of stocks held by traders; potential disruptions to transport networks; and expected flows of food within a region.
36. The availability and reliability of information have significant influence on WFP's ability to undertake market analysis. In many of the countries where WFP works, the primary sources of data include government ministries such as those of agriculture and finance, other United Nations agencies such as FAO, bilateral partners such as the Famine Early Warning System (FEWS), non-governmental organizations (NGOs) and trader networks. In many low-income countries, however, national market intelligence systems are weak, and reliable, timely data are not available, which may limit the effectiveness of WFP's market intelligence efforts.
37. WFP's food procurement staff are an integral part of the country office team. They regularly exchange information with WFP's food aid monitors, vulnerability analysis and mapping (VAM) staff and the recently added emergency assessment officers of the Strengthening Emergency Needs Assessment Capacity (SENAC) project. It is well understood that the close monitoring of all the factors mentioned is essential to ensure that



WFP is not overstressing a market, particularly in that delicate moment when prices are nearing import parity, which is likely to reflect increasing food insecurity in a country. At such times WFP is often faced with an increased need for food to respond to rising food insecurity. These two simultaneous pressures can be difficult to balance, and decisions to slip from local to regional or international procurement, as most appropriate, must be made rapidly.

Staffing of Procurement Offices at the Country and Regional Levels

38. WFP currently has only 18 international food procurement officers, including the Chief of the Service, in the field and at Headquarters; it also has a small number of national officers and a network of very qualified support staff. Most of the officers in the field are also charged with the procurement of goods and services and/or other functions. There is clearly a correlation between the posting of an international food procurement officer in a country and the quantity of food procured, as well as the quality of related activities, but the number remains few relative to the enormous quantity purchased globally. Given the poor infrastructure and weak trade network that exist in many of the countries where WFP buys, reaching the present level of purchases has already been a tremendous challenge.
39. International food procurement staff are posted to only those countries and regions where WFP undertakes significant amounts of procurement. In countries where only small amounts of food are purchased, the existing network of non-specialist staff – who procure food among various other tasks – is able to secure the primary objective of WFP’s food procurement: to purchase in a cost-efficient and timely manner. To promote local and regional purchases further, particularly in countries where markets are not well developed and procurement requires significant market analysis and administrative effort, WFP would need to expand the capacity of its specialist food procurement officers. This would require more country offices to include an international food procurement officer as a core part of their teams, thereby increasing WFP’s operational support costs.

V. FOOD PROCUREMENT EFFICIENCY

Timeliness of Cash Contributions

40. All reviews of food procurement agree that when the cash is in hand and can be used flexibly and without restriction, local and regional purchases are more cost-efficient and timelier than other sources of food aid. For WFP, the process of soliciting, securing and confirming cash contributions sometimes encounters delays that can severely undermine the efficiency of cash contributions (but not necessarily the potential “development impact”). In the recent case of Darfur, cash contributions arrived too late to enable purchases from other parts of the Sudan to be made and transported before land routes became impassible. WFP’s Business Process Review (BPR) found that waiting for a confirmed contribution before undertaking procurement could lead to significant delays in food arrival. The new working capital financing project has already helped some country offices to overcome this obstacle.
41. In operations where needs are recurrent, the confirmation of cash contributions well in advance of periods of high need – typically the lean season – allows better procurement planning and enables WFP to purchase food during the harvest season, when prices are at their lowest. When cash funds are available only late in the season, local procurement may no longer be possible, in which case regional or international procurement is undertaken.



Donor Restrictions

42. The external case studies noted the importance of flexible cash resources to optimize food procurement efficiency. WFP cannot always decide where to buy. Some cash donations are accompanied by a donor's conditions on procuring in a certain manner or area or for a particular destination, and this obligates the commodities to be procured as requested. In 2004, 23 percent of WFP purchases were made in developed countries because this was considered the best and most cost-effective procurement option. However, a further 8 percent of WFP's total purchases were made in developed countries because the donations were tied by donors to purchases in their own countries.
43. Restrictions on the use of cash can lead to delays in the provision of food, and lower cost-efficiency. This can be especially true when cash is restricted exclusively to local purchases, as surpluses are not always available on local markets and procurement could lead to food price inflation, thereby reducing food access for poor households. WFP may therefore have to wait until new supplies appear on the market.¹³
44. The provision of untied donor resources gives WFP the flexibility to procure food locally, regionally or internationally, in a way that optimizes cost-efficiency, timeliness and appropriateness for beneficiary needs.¹⁴

Recipient Country Restrictions

45. If a contribution has no donor condition attached, then the decision on where to purchase is driven by the primary objective of food procurement: to provide appropriate food to the beneficiaries in a timely and cost-efficient manner. In this regard, WFP must respect recipient countries' requirements, including quality and packaging standards. Each country has its own import restrictions and phytosanitary requirements.

Reliable and Competitive Suppliers

46. As WFP requires a reliable supply of good-quality food to meet beneficiary needs, it depends on suppliers of good standing that can provide large quantities of food of appropriate quality in a timely manner. A key component of efficient local food procurement is the development of a network of reliable suppliers operating in a competitive environment. WFP's practice of selective tendering has played a significant role in reducing default rates among contracted suppliers, helped to maintain a pool of tested reliable suppliers and reduced administrative costs. Ensuring that suppliers can and do deliver as promised is critical. The risks of contract default threaten WFP's food pipeline and its ability to meet the food needs of its beneficiaries.
47. The country case studies confirmed that where there were few large traders in a market, WFP has actively worked to encourage smaller traders to participate in tenders so as to increase competitiveness and broaden its supply base. WFP has endeavoured to do this while at the same time balancing factors of reliability, competitiveness and risk.

¹³ In some countries, particularly in Africa, infrastructure weaknesses and insecurity result in trading patterns being regional rather than internally integrated. For example, sorghum in northern Ethiopia can competitively supply southern Sudan, but would be too costly to move into southern Ethiopia. Thus, regional linkages are sometimes more important to market development and food security than local food market development.

¹⁴ German Federal Ministry for Economic Cooperation and Development, May 2005.



48. Despite WFP's attempts to secure reliable suppliers, procuring from markets that are not well-developed is inherently risky. The recent crisis in Niger highlighted the risks that WFP faces when buying from such markets. Although traders submitted offers in response to a WFP tender in February 2005, they all withdrew these offers when WFP attempted to sign contracts. In a matter of weeks, prices had risen, commercial food stocks were low and no supplier was willing to supply WFP at prices below import parity. This led WFP to shift strategy and begin to procure from the Government of Nigeria's Strategic Reserve and imported commercial stocks in the region.

Administrative Costs

49. Only a few studies considered the administrative costs and risks of food procurement, although these can be significant.¹⁵ As noted in the NEPAD study: "often it is the management costs associated with local procurement in surplus-producing regions where there is little or no market infrastructure that is prohibitive, and not the cost of the food itself."¹⁶ Administrative costs for local procurement include the search costs of identifying reliable traders, the staff time involved in monitoring and supporting the completion of contracts, and quite serious costs and risks of contract default, as well as the subsequent requirement to find alternative supplies to meet operational needs. The risks of inadequate quality, which is a contract default, also threaten WFP's food pipeline and its ability to meet the food needs of its beneficiaries. The studies noted that administrative costs and risks increase when there are few large, formal traders, and quality standards are generally low in local markets.

Timely Interventions in the Market

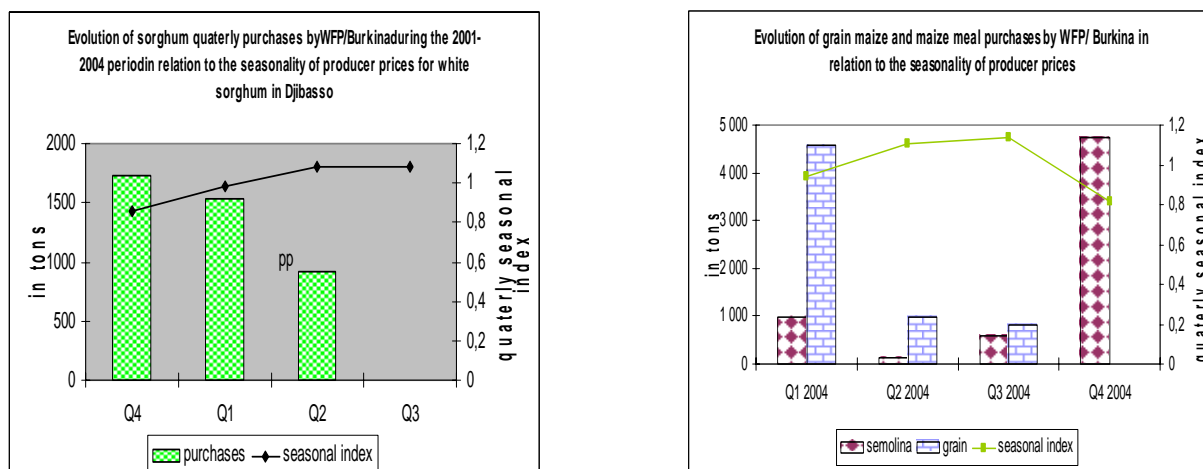
50. Efficiency in the use of cash resources is also closely linked to the timing of purchase interventions in local and regional markets. The ability to take advantage of optimal purchasing opportunities depends on a number of factors, including good local knowledge and market intelligence. The late availability of cash resources may make optimal purchasing difficult.
51. In Burkina Faso, as indicated in Figure 4, the country office optimally planned for its market interventions to maximize cost-efficiency – the graphs indicate that local procurement was maximized whenever prices were below seasonal averages and reduced whenever prices exceeded seasonal averages.

¹⁵ Bolivia, Burkina Faso and Uganda case studies; Wandschneider and Hodges, 2005.

¹⁶ NEPAD. 2004. Food Security Reserve Systems in Africa.



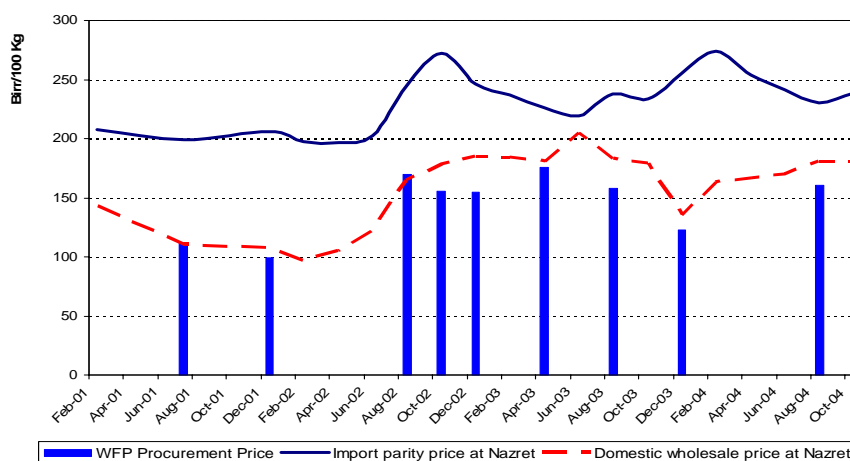
Figure 4: Trends for WFP’s local purchases and seasonality of producer prices in Burkina Faso



Source: WFP. July 2005. Impact of WFP’s Local and Triangular Food Purchases: Burkina Faso Country Case Study.

52. The case study on Ethiopia documented efforts by WFP to purchase strategically despite the late availability of cash resources (see Figure 5). Typically, emergency requirements can only be assessed at harvest time, and cash contributions arrive too late to undertake procurement during the harvest season. The existence of an Emergency Food Security Reserve (EFSR) in Ethiopia has greatly facilitated WFP’s ability to respond quickly to immediate needs, while delaying some procurement to periods when prices are lower. Although some procurement is required late in the season, WFP has managed to keep its intervention prices within a range of domestic wholesale prices, and well below import parity prices, to maximize the cost-efficiency of food purchases. According to findings from the country case study, the country office made an average saving of about US\$78 per mt of wheat and sorghum procured locally between 2001 and 2004.

Figure 5: WFP’s Cost Efficiency in Local Procurement of White Wheat in Nazareth, Ethiopia 2001-2004



Source: WFP (PDPE), 2005



Box 1: Using national strategic food reserves in Ethiopia for timely response

In Ethiopia, the Disaster Preparedness and Prevention Commission (DPPC) has established an EFSR, which enables it and its partners to borrow food for immediate use, against confirmed pledges with a guarantee to pay back from the donor. Except in rare cases, when the procured food is directly delivered to the beneficiaries, locally purchased food is used to repay the EFSR on behalf of either DPPC or the agency concerned. Food procurement is made by the agency receiving the pledge – DPPC for bilateral donations, WFP for food aid channelled through it and NGOs for their share.

Source: AgriDev Consult. June 2005. Local and regional procurement in Ethiopia – an analytical review, pp. 29 and 41–42.

Futures Markets

53. An area that needs to be explored further is the use of futures markets to hedge against price risks and increase the cost-efficiency of local and triangular food purchases in developing countries. In South Africa, for example, maize prices for future contracts and options are generated on the futures exchange, SAFEX. This exchange allows buyers to bargain with sellers for cheaper prices on contracts to be fulfilled at a future date. New mechanisms that provide early financing to projects, such as working capital loans, could provide the advance cash resources needed to benefit from futures markets. Using such markets exposes WFP to certain risks, however, and these would need to be properly assessed before WFP could proceed further.

VI. IMPACT ON DEVELOPING COUNTRIES

54. The various case studies provide evidence that WFP's local and triangular food procurement can and often does have a positive impact on markets, food processing industries and, in a few countries, local agricultural production. This impact is not uniform across the countries where WFP operates. Least-developed and low-income countries have varying degrees of market development and integration with regional and world markets. The development impact of WFP's local and regional procurement activities is generally greatest where markets are not well-developed and where WFP can regularly procure significant amounts.
55. WFP's programmes and procurement activity are both focused on addressing the food needs of the most vulnerable people in a country in a timely, efficient and appropriate manner. Food procurement in developing countries has the implicit objective of supporting the agriculture sector and economy of a country. Addressing the food insecurity of the rural poor is an objective of WFP's food aid programmes in recipient countries. Supporting market development through local and regional purchases complements direct efforts to improve food security through food aid programmes. The studies show that under its normal procurement procedures WFP meets this objective, while ensuring its primary objective of meeting beneficiary food needs in a timely, cost-efficient and appropriate manner.
56. WFP operates in a unique context. The majority of food purchased in developing countries is for emergency operations. As WFP's local procurement decisions are based on the actual level of need in a country in a particular year and the timely availability of cash



funds – both of which can fluctuate dramatically from year to year – it tends not to be a reliable buyer on local markets, even where it has a long-term presence. This means that many of WFP's interventions on local markets are perceived as additional to regular demand and absorb the available surpluses held by traders, rather than stimulating investment in trade capacity. In only a few countries has WFP established a regular presence on a local market, resulting in traders taking WFP demand into consideration in their business investment decisions. The fact that WFP is not a reliable buyer in many markets is a serious limitation on its ability to contribute to market development.

57. Nonetheless, the positive potential of food aid procurement should not be over-estimated. Total production of cereals in developing countries currently amounts to 1.25 billion mt – about 58% of global cereal production. Typically 14% of global production is traded. Developing countries export 68 million mt, while they import 167 million mt.¹⁷ WFP's total annual food aid needs are anticipated to be approximately 5 million mt. Thus, national agricultural and trade policies and investments remain the most significant factors in promoting agriculture and market development.

Grain Market Development

58. WFP's presence as a competitive buyer in food markets has had important impacts on market development in many countries, promoting competitive behaviour, raising business standards and improving the quality of food supplied by traders. As an uncertain and often unpredictable buyer, however, WFP has a responsibility to intervene in markets without creating false expectations.
59. The WFP case studies and other reviews consistently show that where WFP is a regular buyer, procurement contributes to:
- improved business practices among traders;
 - investment in infrastructure for storage and quality enhancement;
 - higher quality standards for the food that is available in the market; and
 - in some countries, greater food processing capacity.
60. Results from the NRI case study in Uganda indicated that WFP has significantly contributed to the development of the Ugandan maize subsector, benefiting a wide range of other service providers. The study noted that WFP's procurement provided trading companies with "...exposure to strict contractual arrangements and increased interaction with the banking sector. In order to supply WFP, they had to develop improved procurement strategies and warehouse and quality management systems." The study concluded that local procurement also provided a stimulus to the production and marketing of beans, and contributed to the emergence of a small blended foods manufacturing sector.¹⁸
61. In the Uganda and Nepal case studies, concerns were raised that WFP's stringent contractual requirements favour large traders and exclude smaller traders. Given the fixed investment required to clean, store and move large amounts of grain, larger traders can generally meet WFP's quantity and quality conditions more cost-efficiently than smaller traders. However, WFP's list of reliable suppliers aims to include a range of suppliers, not just the large traders. The studies found that the majority of suppliers on WFP's list

¹⁷ FAOSTAT. 2005.

¹⁸ Wandschneider and Hodges, 2005.



received regular contracts through the tendering process; this was found to encourage competitive behaviour among traders.

62. Mechanisms used by WFP to maintain a broad supply base and to encourage greater competition in the food market include lot sizes for tenders that are appropriate to the participation of medium-sized traders, and contract terms for delivery near the beneficiaries, which benefits traders that are outside the central market. In addition, procurement officers spend considerable time providing advice and guidance to traders. The case studies on Bolivia, Burkina Faso and Nepal all found that such innovations, while requiring significant staff time and commitment, resulted in more competitive tendering and less concentration in the market. In all cases, it is important to maintain cost-efficiency, quality and timeliness.
63. The case studies also found that where the banking system was supportive of trading activity, traders could use WFP contracts for working capital loans – thus enabling medium-sized traders to become regular WFP suppliers and encouraging investment in marketing infrastructure. Where access to finance is constrained, market development and competitiveness are hampered.

Investments in Local Food Industries

64. For many years, WFP has invested in local food industries in developing countries to enable it to find local sources for blended and fortified foods. A variety of blended foods have been developed in a number of recipient countries for use within mother-and-child health programmes as weaning foods, both for nutritional and educational purposes. Over time, the nutritional value of locally produced blended foods has been enhanced through vitamin and mineral fortification, and they have become part of the food basket in a much wider array of operations. Recently, the production of high-energy biscuits in recipient countries has also expanded as the demand for this commodity has increased with WFP's greater involvement in responding to emergencies.
65. Although fortified and blended foods accounted for only 5 percent of WFP's food procurement from developing countries from 2001 to 2004, the demands for these foods are rising. Thanks to WFP's earlier investments in the sector, 70 percent of its procurement of these commodities occurs in developing countries. The Ethiopia, Nepal and Uganda case studies showed that WFP's investment has resulted in increased private sector activity and minor exports to neighbouring countries. Southern African countries and India export more of these foods to countries in the vicinity.
66. The available evidence shows that the impact of WFP support to local food industries can be positive. For example, in order to assure food quality in Southern Africa, in 2004 WFP decided that local food processors should conform to the Codex Alimentarius guidelines of good manufacturing practice (GMP) and adopt the hazard analysis critical control point (HACCP) principles – an international standard to control quality during the entire manufacturing process. With a grant from the Government of Canada, an extensive study was launched to provide support to WFP's suppliers in meeting these standards. This study found that HACCP was already a requirement in the various countries' national food legislation; thus WFP support to local processors was building national capacity in the food sector to meet these requirements.
67. Another market development impact observed in some countries has been investment in the milling sectors. Procurement of milled foods – rice, wheat flour and maize meal – has stimulated private sector processing activities. However, it was noted that procurement of wheat flour and maize meal tends to support larger millers at the expense of small-scale



millers located in beneficiary areas; this was not the case for the procurement of rice, as raw paddy must be milled into rice before it enters the consumer market chain. Moreover, a number of studies cautioned that although giving beneficiaries grains often stimulates local small-scale milling activity – especially for wheat and maize – these benefits are lost when WFP procures substantial amounts of wheat flour or maize meal.

68. The studies on local procurement do not provide details of the costs and benefits of WFP's support to agro-industry and food processing. Despite the important positive results that have been produced, providing support to local food processing entails a range of risks for WFP, including the need to ensure that specific quality standards are met in order to prevent health risks to beneficiaries. As WFP cannot guarantee a market for processed foods, investments in plant also constitute a risk for potential food processors. WFP has worked with the private sector to develop successful food processing sectors in some countries, but more research is required to gain a full understanding of WFP's role in the process.

Assistance to Small Traders and Farmers' Groups

69. In some countries, WFP procurement officers have – on their own initiative – worked with small traders and farmers' groups to help these to participate in competitive tenders. Measures to encourage such participation include relaxing some of the tender requirements such as bid bonds that do not sacrifice cost-efficiency, quality or timeliness, and purchasing on terms in which WFP manages transport from the supplier's warehouse. The amounts procured are limited so that WFP's food pipeline is not exposed to the risk that these groups fail to fulfil contracts.
70. In a few countries where a WFP partner with expertise in agricultural development has supported the formation and management of farmers' groups, WFP has invested the administrative costs required to help such groups to participate in WFP's procurement process. However, this is usually done outside of emergency situations, when food is not urgently needed. The extent to which WFP can help depends on the usually limited time that procurement staff have to provide such assistance.
71. Support for small-scale traders is not just a matter of what WFP can do; it also requires a conducive and enabling environment with good access to credit, as well as a supportive regulatory environment that encourages the recognition of small traders as legal entities. In some countries, government regulations and taxation of businesses discourage smaller traders from entering the formal sector and becoming legally recognized.
72. It should be noted that although WFP can encourage and support smaller suppliers' participation in tenders, the competitive bidding process requires that the best bids win. There is therefore no guarantee that once a supplier is included in WFP's list of suppliers it will be awarded a contract.

Direct Contracting with Farmers and Farmers' Groups

73. In some cases, WFP has been urged to support smaller farmers by contracting directly with farmers and farmers' groups outside of the competitive tendering process in order to support agricultural development programmes. In its procurement procedures, however, WFP normally undertakes direct contracting only when there are fewer than three suppliers for a commodity, or in sudden-onset emergencies, when a very small amount can be procured to meet immediate needs. These limits help prevent uncompetitive behaviour and reduce the risk that WFP cannot meet beneficiary needs effectively.



74. The case studies on Burkina Faso and Uganda and the NRI study on Uganda found that WFP's experience of supporting farmers and farmers' groups has had mixed results. Farmers participating in groups have benefited from higher incomes, which many have invested in improving agricultural production. In addition, some of the groups were able to invest in storage and cleaning equipment, improving their food quality and thus the returns from traders. For WFP, however, the experience has generally been negative, resulting in higher prices paid, higher administrative costs because of having more contracts to monitor, and greater risk of default. As a result of higher prices paid, direct contracting has usually led to a transfer from WFP's beneficiaries to farmers supplying WFP, who are normally better off than WFP's beneficiaries.¹⁹
75. In addition, it should be noted that as WFP procures on the basis of food aid needs and in consideration of the level of cash contributions it receives, it is not a reliable buyer on a market. Artificial support to farmers' groups could therefore lead to investments by these groups that they cannot maintain when WFP stops buying. So, although WFP can have an impact on developing the capacity of these groups and linking them with the formal trading sector, it is equally clear that direct contracting and preferential terms that do not fit market realities can lead to inefficient use of resources.

Purchasing Premiums

76. A few donors have requested WFP to undertake local purchases from specific groups, even when the cost of such purchases exceeded the cost of food available elsewhere. Where donors have wished to support purchases from farmers' associations, for example, they have often been willing to pay a premium on market prices as a means of supporting the farmer households belonging to these associations and promoting their marketing of food. In other cases, donors have asked WFP to purchase food locally, despite it being available regionally or internationally at lower cost.
77. As already noted, however, local purchases by WFP above the import parity price could have important negative implications on resource availability and utilization, and significant structural implications for local markets and competitiveness. In a few countries, WFP has undertaken such procurement on behalf of donors, usually for small quantities that do not disrupt WFP's food pipeline or the overall cost-efficiency of WFP's operations. The result has been increased input use and production by those farmers' groups that benefited from the higher prices offered by WFP. Nevertheless, the higher prices reduced the total amount of food that could be procured with the cash resources, thus reducing the amount that WFP could provide to its beneficiaries.
78. A higher price offered by WFP to farmers' groups for one or two seasons can provide an incentive to increase production, but this is unsustainable. Without any further investments in post-harvest storage and marketing linkages, the income gain results in windfall profit to some farmers, without any market development. Once WFP stops procuring, or returns to competitive pricing, the farmers and farmers' groups are no longer able to compete, unless they have used the income gain to invest in storage and quality control capacity. Moreover, although WFP can provide a limited incentive through the procurement activity, it faces increased administrative costs and increased risk of default in doing so.

¹⁹ Burkina Faso case study, NRI study.



Stimulating Regional Trade

79. In many cases, WFP already has a significant impact in stimulating regional trade. The NEPAD study encouraged WFP's use of regional procurement to stimulate regional trade. However, the studies that considered regional purchases²⁰ noted that WFP procurement has stimulated trading activity where the infrastructure and security situation facilitate trade.
80. WFP also needs to take informal trade flows into consideration. Procurement can increase formal sector regional trade, but it may also disrupt informal sector flows as more food is absorbed within the country. Thus, for both local and triangular purchases, WFP must maintain a regional perspective in its procurement.

Supporting a Warehouse Receipts System

81. A warehouse receipts system is a private sector mechanism supported by the public sector and commercial banks to increase the availability of credit by using stocks as collateral. By depositing grain in a bonded warehouse, a farmer/trader can use the "receipt" as a property right for the stored grain and can provide this as collateral to obtain credit from a commercial bank. Governments provide support by ensuring an appropriate legal and regulatory environment. Such a system can be an important means to release the credit constraint that often hinders farmers and traders from benefiting from market opportunities, such as participation in WFP tenders.
82. The creation and effectiveness of a warehouse receipts system is a private sector response to manage risk and increase credit flows. It relies on a suitable legal and regulatory environment, the willingness of the banking sector to support such a system and the availability of insurance markets to protect financiers.²¹ WFP does not have a direct role in the creation of such systems. Nevertheless, WFP can encourage the private sector and the government to establish a system, particularly as WFP can then use warehouse receipts as a means to secure food supplies.

²⁰ Burkina Faso, South Africa and Uganda case studies, NRI study.

²¹ NEPAD, 2004.



Box 2: Supporting the warehouse receipts system in Uganda

In January 2005, following an agreement between Uganda Grain Traders Limited and the Ministry of Agriculture, Animal Industry and Fisheries, a pilot warehouse receipts system for grains was established in Uganda. Once the system has developed, WFP will benefit from it through reduced risk of contract default due to late delivery or substandard produce supplies. A warehouse receipts system may enhance participation by farmers' associations and smaller traders in local procurement activities, and reduce the costs to WFP associated with procuring from these individually. The system would also facilitate domestic grain traders to penetrate regional markets.

Licensed warehouses could be used as delivery points by traders supplying WFP contracts; locating them outside Kampala in surplus producing areas would address the current problem of inadequate storage facilities. Alternatively, WFP could participate in the warehouse receipts system as a commodity buyer, using its up-country warehouses to receive commodities from farmers' associations and traders and inviting them to bid for its supply contracts based on their stocks in WFP warehouses.

Source: Sserunkuuma & Associates Consult Ltd., June 2005; Wandschneider and Hodges, 2005.

Risk of Overdependence on WFP

83. The Uganda studies highlight the importance of WFP being a responsible buyer in a local food market. WFP is one of the largest institutional buyers in Uganda, and currently dominates the Ugandan commercial maize export market. As food aid needs in Uganda decrease, WFP must exit from this market in a responsible manner. The sudden withdrawal of WFP from such a market would have severe adverse effects on larger traders, and could collapse commercial maize exports. There are export markets for Ugandan traders, but these have not been fully developed because WFP absorbs most of the export surplus. As an influential actor on the Ugandan maize market, WFP will need to consider how best to exit from the market over time.

VII. KEY ISSUES AND RECOMMENDATIONS

84. This paper has reviewed some of the ways in which WFP food procurement can and does contribute to development. WFP's contribution, however important, operates within a national policy framework that is and must be the primary vehicle for advancing national development priorities. National market and food policies have a significant impact on WFP's procurement activity. Where policies are conducive to free flows of food, WFP is usually able to procure at competitive prices locally or regionally with no negative impacts on the market. In countries with recurrent crises, the existence of strategic grain reserves facilitates both procurement, through rotation of quality stored grain, and quick delivery of food aid, through borrowing against donor pledges.
85. National policies can promote market development by investing in physical infrastructure, providing an appropriate legal and regulatory framework, expanding credit markets and supporting widespread access to market information. National food policies, particularly harmonization of regional quality standards and trade facilitation, can also promote regional trade flows and encourage greater formal sector investment. Innovative



mechanisms such as a warehouse receipts system can also deepen formal sector marketing activity and serve as a basis for promoting regional trade.

86. As a buyer in food markets, WFP has a role to advocate for national policies that promote the effective functioning of these markets. In particular, WFP can work with those partners concerned with agriculture and food sector development to share its experiences of trading activity and the challenges it faces.
87. WFP food procurement must balance a number of important, and sometimes competing, objectives. The current analysis of WFP's experiences with local and triangular food procurement is intended to illuminate the key issues, choices and trade-offs facing WFP in undertaking food procurement in a manner that optimizes its development impacts. These issues represent the main factors influencing the balance WFP aims to achieve between its procurement objective of timely, cost-efficient and appropriate food and its programmatic objectives of promoting developing country food markets and the food security of food aid recipient countries. The conclusions that can be drawn from the current analysis are summarized in the following:
 - *Market development as an implicit objective.* WFP seeks to strengthen developing country markets wherever this can be done consistently with purchasing efficiency and optimal use of scarce cash resources. Incorporating an explicit food security or market development objective into the procurement activity could in some cases compromise WFP's primary objective of addressing beneficiary food needs. Nevertheless, the current analysis has identified important lessons on WFP's development impact. These warrant WFP's consideration of a greater emphasis on market development in its procurement and programming activities. In particular, the potential for local and regional procurement should be assessed as part of WFP's broader strategy in a country.
 - *Flexible and timely cash contributions.* The provision of untied donor resources would allow WFP to procure at the local, regional or international level, promoting market competitiveness and ensuring cash is used to provide food in the most timely and efficient manner. Early confirmation of cash contributions enables WFP to plan its procurement better, particularly in local markets, where substantial cost savings can be achieved by procuring at harvest time.
 - *Encouraging small traders and farmers' groups.* When food needs are not urgent, WFP can do more to encourage small traders and farmers' groups that can trade competitively in the formal sector. However, the amount that WFP can purchase in this way is limited, as it is necessary to balance benefits with the administrative costs of monitoring a large number of contracts for small quantities and the risk to WFP's beneficiaries if a supplier defaults on a contract.
 - *Preferential treatment for farmers and farmers' groups.* WFP is not well-placed to use procurement as a means to support farmers and farmers' groups in entering the market place. There may be limited opportunities for support as part of a broader partner-led strategy to link groups with larger traders or national grain reserves. However, WFP faces high administrative costs and risks with such procurement, while the benefits go to farmers that have surpluses rather than to food-insecure households. In particular, purchasing premiums result in a transfer of resources from WFP's beneficiaries to relatively better-off surplus-producing farmers.



- *Developing food processing capacity.* WFP should continue to support the creation of processing capacity to produce fortified and blended foods in countries where local processors have the potential to become market competitive. Further study of the developmental impact in relation to the costs and risks of this support is required.
- *Procurement office capacities at the country and regional levels.* WFP is currently able to secure the primary objective of its food procurement – to purchase in a cost-efficient and timely manner. To promote local and regional purchases further, particularly in countries where markets are not well-developed and procurement requires significant market analysis and administrative effort, WFP would need to expand the capacity of its specialist food procurement staff. The required increase in international food procurement officers should be considered in relation to the potential supply capacity of a market, the cost-savings that local and regional procurement can bring and WFP's overall needs.



ANNEX

**2001–2004 Aggregate food purchases
Top 15 countries by quantity purchased
(including procurement for the Iraq operation)**

Country	Quantity (mt)	Value (US\$)	Rank
South Africa	738 015	143 278 478.31	1
*Canada	618 057	133 444 438.34	2
**Australia	547 044	96 743 319.50	3
India	472 819	83 817 454.69	4
**USA	442 897	81 381 290.30	5
Pakistan	430 491	70 901 170.81	6
*Japan	404 868	99 899 552.08	7
Ethiopia	352 963	68 976 547.02	8
Turkey	335 480	113 364 334.52	9
Thailand	325 329	72 641 994.83	10
Uganda	313 041	69 255 180.88	11
Kazakhstan	311 009	43 310 735.48	12
China	299 486	63 520 723.46	13
Argentina	266 768	79 887 003.33	14
Sudan	200 717	34 882 898.28	15

* Cash contributions from Canada and Japan include a partial component for food procurement from the donor country.

** Large purchases for the Iraq operation were undertaken from Australia and the United States during 2003/04.



ACRONYMS USED IN THE DOCUMENT

BPR	Business Process Review
CCTI	Committee on Commodities, Transport and Insurance
CFA	Committee on Food Aid Policies and Programmes
CILSS	Permanent Interstate Committee for Drought Control in the Sahel
DAC	Development Assistance Committee (OECD)
DPPC	Disaster Preparedness and Prevention Commission
EDP	Enabling Development Policy (WFP)
EFSR	Emergency Food Security Reserve
FAO	Food and Agriculture Organization of the United Nations
FDD	Donor Relations Division (WFP)
FEWS	Famine Early Warning System
GMP	good manufacturing practice
HACCP	hazard analysis critical control point
NEPAD	New Partnership for Africa's Development (NEPAD)
NGO	non-governmental organization
NRI	Natural Resources Institute (United Kingdom)
OD	Operations Department (WFP)
ODT	Transport and Procurement Division (WFP)
ODTP	Food Procurement Service (WFP)
OECD	Organisation for Economic Co-operation and Development
PDP	Policy, Strategy and Programme Support Division (WFP)
PDPT	Emergencies and Transition Unit (WFP)
SENAC	Strengthening Emergency Needs Assessment Capacity (project)
VAM	vulnerability analysis and mapping

